Standards and Procedures for Audits of Court-Ordered Desegregation and Voluntary Integration Programs



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June 2001

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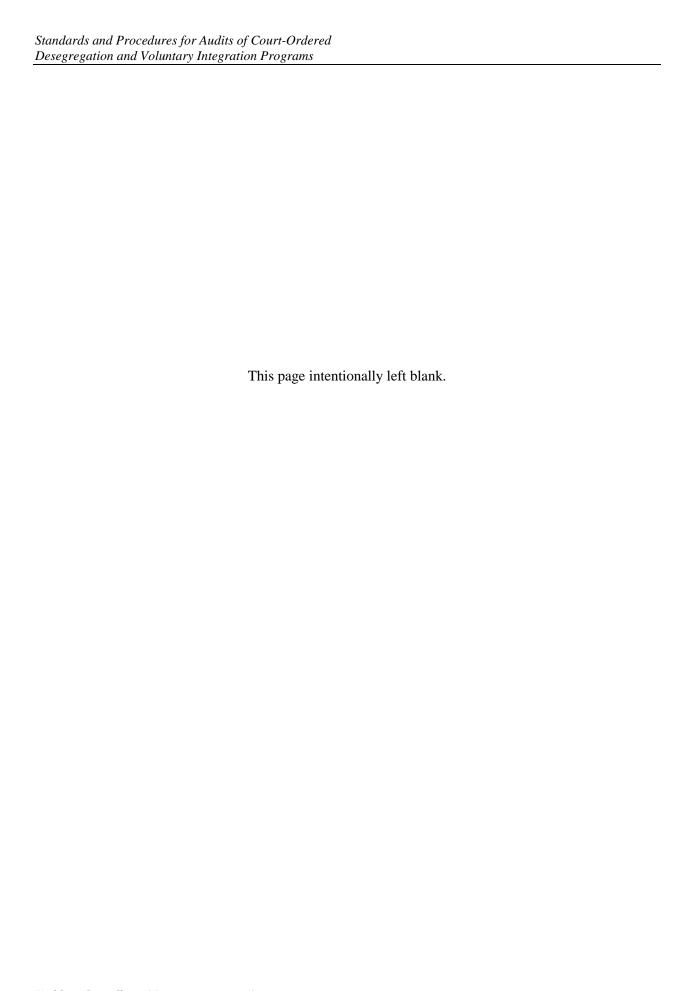
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SECTION 100 INTRODUCTION



INTRODUCTION

PURPOSE OF AUDIT GUIDE

100 110

The State Controller's Standards and Procedures for Audits of Court-Ordered Desegregation and Voluntary Integration Programs (audit guide) is designed to assist certified public accountants and public accountants in performing audits of court-ordered desegregation and voluntary integration claims submitted by school districts, and groups of school districts in collaboration, in accordance with the provisions of Education Code Sections 42243.6, 42246, 42247, and 42249, and with various statutory and budget act provisions relating to the reimbursement of such claims.

Reimbursement claims submitted are for the costs of implementing and operating either a court-ordered desegregation program as ordered by a court, or a voluntary integration program as formally adopted by the district's governing board.

AUDIT OBJECTIVES 120

The general objectives of each audit are to determine whether:

- Reimbursement claims submitted are for the costs of implementing and operating either a desegregation program ordered by a court, or a voluntary integration program as formally adopted by the district's governing board.
- The costs included in the claims do not include costs that are general district obligations and do not supplant funding from the general fund or other sources.
- The costs included in the claims are costs eligible for reimbursement under the provisions of Education Code Section 42243.6 for court-ordered desegregation claims, or Education Code Section 42249 for voluntary integration claims.
- The costs included in the claims are incremental or increased costs incurred in implementing a courtordered desegregation program, or a voluntary integration program over and above the regular educational expenditures.

BACKGROUND 130

Education Code Section 42246(b) specifies that the Controller shall establish standards and procedures governing the auditing of claims submitted by school districts for the payment of actual costs. The audit guide sets forth the standards used by the State Controller in performing such audits.

Education Code Sections 42243.6(b) and 42249.2(c) require that school districts claiming reimbursement for court-ordered desegregation or voluntary integration programs submit their claims to be audited in accordance with standards used by the State Controller's Office, and that the audit be submitted with the claim for reimbursement. School districts may contract with the State Controller's Office, Division of Audits, or with certified public accountants for the performance of such audits.

COURT-ORDERED DESEGREGATION

140

Court-ordered desegregation programs are programs in which school districts are required to comply with court orders to desegregate the district's schools. Court orders require districts to take specific steps or to implement specific plans or programs to achieve the court's directive.

Education Code Section 42243.6 sets forth the statutory basis for reimbursement of court-ordered desegregation claims. Reimbursement is limited to the incremental or increased cost of complying with specific elements of the court order to desegregate. The claiming instructions, prepared annually by the State Controller's Office, Division of Accounting and Reporting, contain specific discussions and explanations of the claiming process and types of costs that may be reimbursed.

VOLUNTARY INTEGRATION

150

Voluntary integration programs are programs adopted and implemented voluntarily by school districts to integrate schools in such a fashion as to provide a racial and ethnic balance within district schools that approximates the racial and ethnic balance of the district's student population taken as a whole. In cases where balance cannot be achieved through reasonable and feasible means, district programs may be adopted to compensate for racial isolation.

Education Code Section 42249 sets forth the statutory basis for reimbursement of voluntary integration claims. This section limits reimbursement to four specific program cost components. The claiming instructions, prepared annually by the State Controller's Office, Division of Accounting and Reporting, contain specific discussions and explanations of the types of costs that may be reimbursed.

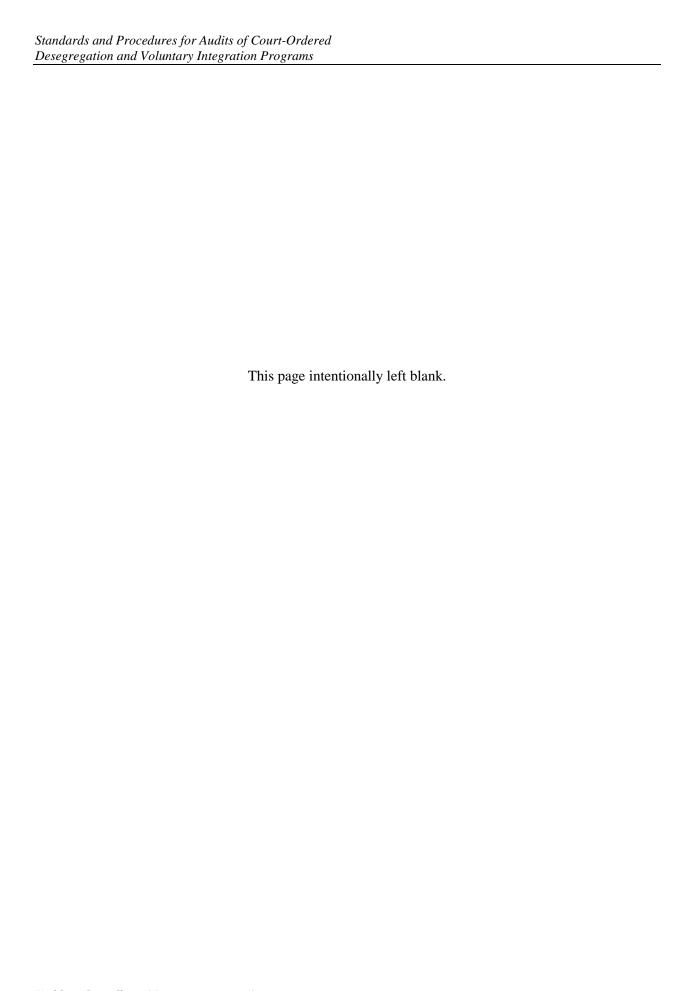
AUDIT GUIDE REVISIONS

160

Revisions to this audit guide will be made in accordance with Education Code Section 42246. These revisions will be made as experience suggests ways to improve accountability and as changes in statutes and regulations require procedural updates. Suggestions, questions, and correspondence concerning the audit guide are encouraged and should be addressed to the State Controller's Office, Division of Audits.

Although this audit guide will be updated periodically, it is the auditors' continuing responsibility to review any changes to the Education Code or Budget Act as necessary to assess program compliance.

SECTION 200 AUDIT ADMINISTRATION



AUDIT ADMINISTRATION

ARRANGEMENT FOR AUDIT

210

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The governing board of each local educational agency (LEA) submitting claims for reimbursement under the provisions of Education Code Section 42243.6 (court-ordered desegregation) or Education Code Section 42249 (voluntary integration) is required to provide for an audit. LEAs either must contract with the State Controller for the performance of such audits prior to submitting claims for reimbursement, or must submit with the claim for reimbursement an audit of the claim conducted in accordance with the standards set forth in this audit guide by an independent certified public accountant.

LEAs that elect to contract with the State Controller for performance of such audits should address requests to:

> State Controller's Office Division of Audits Post Office Box 942850 Sacramento, California 94250-5874

LEAs that elect to contract with independent certified public accountants should make such contractual arrangements as are necessary. Contracts must contain the provisions identified below. Audits may not be conducted by certified public accountants (CPAs) or public accountants (PAs) who have been determined to be ineligible to conduct LEA audits. The State Controller notifies LEAs by March 1 of each year of those CPAs and PAs determined to be ineligible to perform LEA audits in conjunction with the annual revision of the State Controller's Office Standards and Procedures for Audits of K-12 Local Educational Agencies.

CONTRACT PROVISIONS

220

All entities shall include in their contracts for audit the provisions described below.

Access to Working Papers

221

The State Controller shall be granted access to audit working papers prepared by the auditors (Education Code Section 14504).

Other 222

The contract between the entity and the auditor should include:

- The period for which financial statements are to be examined;
- The purpose of the examination;
- The scope of the examination;
- A provision stating that the audit will be conducted in accordance with Standards and Procedures for Audits of Court-Ordered Desegregation and Voluntary Integration Programs;
- A provision stating that the auditor will, if applicable, issue a management letter that: (1) points out the reportable conditions (material weaknesses) in the internal control structures; (2) makes comments on areas of possible improvement in structures, procedures, and management practices of the entity; and (3) identifies areas of possible violations of financial and accounting-related regulatory provisions;

- A statement of the auditor's responsibility for detection of fraud; and
- The estimated maximum or fixed cost of the audit.

AUDIT REPORT DUE DATE

230

Audit reports for the preceding fiscal year's claim should be submitted with the entity's claim for reimbursement to the State Controller's Office, Division of Accounting and Reporting, by November 30.

DISTRIBUTION OF AUDIT REPORTS

240

Two copies of the audit report must be filed with the entity's claim for reimbursement. The claim and the audit report must be submitted to the State Controller's Office at the following address:

or

<u>Postal Address</u> <u>Freight Deliveries Only</u>

State Controller's Office Division of Accounting and Reporting Bureau of Local Reimbursements Post Office Box 942850 Sacramento, California 94250-5875 State Controller's Office
Division of Accounting and Reporting
Bureau of Local Reimbursements
3301 C Street, Suite 500
Sacramento, California 95816

RETENTION OF WORKING PAPERS

250

The audits are subject to review by the State Controller's Office, the California Department of Education, and the Bureau of State Audits. Working papers and reports shall be retained for a minimum of three years unless the auditor is notified in writing by the State Controller of the need to extend the retention period. The audit working papers shall be made available upon request.

Quality Control Reviews of Audit Working Papers

251

Education Code Section 14504.2 authorizes the State Controller to perform quality control reviews of audit working papers to determine whether audits are performed in conformance with audit standards contained in the audit guide. The State Controller has developed guidelines and standards for the quality control reviews. A copy of the Quality Control Review Guide for Single Audits of Local Educational Agencies is available upon request.

The results of the quality control reviews are communicated to the following:

- Entity for which the audit was performed ¹
- Entity's auditor 2
- Respective county superintendent of schools
- State Board of Accountancy
- California Department of Education
- U.S. Department of Education

A refusal by a CPA or a PA firm to participate in the quality control review process within a reasonable time period (four months) will result in a mandatory quality control review for the approval and certification of current audit reports and/or determination of ineligibility to perform school audits.

INELIGIBILITY TO PERFORM AUDITS

260

Education Code Section 41020.5 prohibits entities from using the audit services of CPAs or PAs who are ineligible to conduct audits.

The State Controller is authorized to make the determination that a CPA or PA is ineligible to conduct audits if either of the following conditions occur:

- The State Controller determines by two consecutive quality control reviews that the CPA or PA did not perform audits in substantial conformity with audit standards contained in this audit guide.
- The State Controller determines that, for two consecutive years, a given entity's audit reports (including amended reports submitted by February 15) do not conform to standards in this audit guide.

The State Controller's determination of ineligibility is communicated to the CPA or PA by written notification.

Appeal of Ineligibility Determination

A CPA or PA who is ineligible to conduct audits may appeal the State Controller's determination. The CPA or PA may file a written appeal with the State Board of Accountancy within 30 days after receiving written notification from the State Controller's Office.

If an appeal is filed with the State Board of Accountancy, the board must complete an investigation of the appeal within 90 days of the filing date. On the basis of the investigation, the board may do either of the following:

- Find that the State Controller's determination should not be upheld and has no effect; or
- Schedule the appeal for a hearing. The final action on the appeal must be completed by the board within one year from the date the appeal was filed.

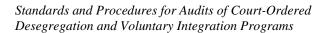
If the CPA or PA does not file a written appeal with the State Board of Accountancy within 30 days, the ineligibility determination is final. The CPA or PA will not be allowed to conduct audits of entities for a period of up to three years.

The State Controller's Office is required to notify each LEA, by March 1, of those CPAs or PAs who are ineligible to conduct audits.

REFERENCES FOR ASSISTANCE

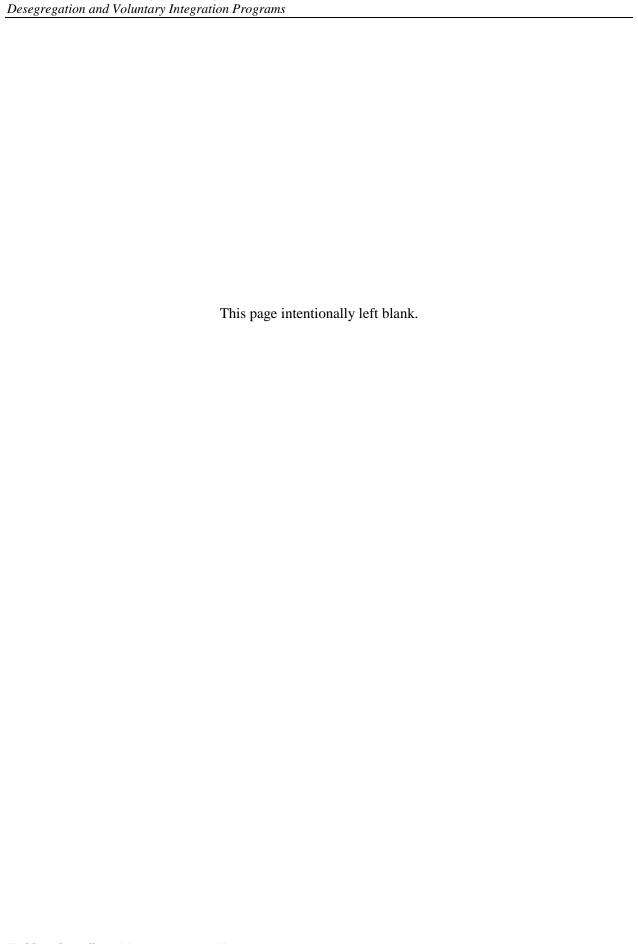
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Questions regarding this audit guide and audit reporting issues should be directed to the State Controller's Office. Sources of audit assistance and related publications may be found in Appendix C.



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SECTION 300 AUDITING STANDARDS



 ${\it Standards\ and\ Procedures\ for\ Audits\ of\ Court-Ordered}$

AUDITING STANDARDS

STANDARDS 310

The audits shall be performed in accordance with: generally accepted auditing standards, as promulgated by the American Institute of Certified Public Accountants (AICPA); generally accepted government auditing standards for financial compliance audits, as promulgated by the U.S. General Accounting Office (GAO) in Government Auditing Standards; and the standards issued by the State Controller's Office.

These auditing standards encompass general standards, fieldwork standards, and reporting standards, which include the AICPA auditing standards and additional standards and requirements necessary to satisfy the needs of government. The additional standards require that the auditor address the concerns listed below.

Compliance With Laws and Regulations

311

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Government Auditing Standards require that "a test should be made of compliance with applicable laws and regulations."

Compliance testing includes tests performed to determine whether an entity is complying with the provisions of laws, of regulations, and of contractual, grant, loan, and other assistance programs. The objectives of tests of compliance with laws and regulations are to determine whether there have been events of noncompliance that may have an effect on the amount claimed or to provide a basis for reporting on the entity's compliance with such laws and regulations.

Working Papers 312

Working papers are the link between fieldwork and the auditor's report. They serve as a record of the results of the examination and the basis for the auditor's conclusions. Procedures should be adopted to ensure the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements.

General guidelines for preparing working papers follow.

- Completeness and Accuracy Working papers should be complete and accurate to provide support for findings, judgments, and conclusions, and to enable demonstration of the nature and scope of examination work.
- Clarity and Understandability Working papers should be understandable without detailed supplementary oral explanations. The reviewer should be able to readily determine their purpose, their source, the nature and scope of the work done, and the preparer's conclusions.
- Legibility and Neatness Working papers should be as legible and as neat as practicable to avoid wasting time in preparation and review. Sloppy working papers also may lose their worth as evidence.

Relevance - The information in working papers should be restricted to matters that are materially important and relevant to the objectives of the assignment. There are no substitutes for a working understanding of the audit objectives, the reasons for performing a specific task, and their relationship to the objectives. This understanding comes from well-planned and well-organized work programs and effective instructions by supervisors. The practice of having all working papers contain clear statements of purpose is helpful in ensuring that the accumulated information is properly tied to audit objectives and reporting.

Access to Another Auditor's Work

Underlying the audit planning is the principle that federal, state, and local governments cooperate in auditing programs of common interest so that auditors may use each other's work and avoid duplication of efforts. Auditors should rely on the work of other auditors to the extent feasible once they satisfy themselves of the other auditor's capabilities, independence, and performance by appropriate tests of the work or by other acceptable methods.

To do this, the auditors generally must have access to the working papers of the other auditors. As noted previously, LEA contracts must include provisions for granting the State Controller's Office access to working papers. For working papers containing restricted information, the pertinent regulations should be followed.

Continuing Education 313

Audit organizations are required to have a program to ensure that staff maintains professional proficiency through continuing education and training. To satisfy this requirement, auditors responsible for planning, directing, conducting, controlling, or reporting on governmental audits should complete, every two years, at least 80 hours of continuing education and training to contribute to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the two-year period. Individuals responsible for planning or directing an audit, conducting substantial portions of fieldwork, or reporting on the audit, should complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the government environment and government auditing. In addition, beginning in 1998, all California CPAs must have a minimum of 8 hours of Board of Accountancy-approved professional conduct and ethics training within the six years preceding the license expiration date.

Quality Control 314

Audit organizations performing government audits are responsible for having an external quality control review at least once every three years. The quality control review should determine that the organization has a functioning internal quality control system to ensure that applicable auditing standards are being followed in audit engagements, including governmental audits. Reports resulting from the external quality control reviews should be made available to oversight bodies and to auditors using the work of the audit organization.

OTHER ISSUES 320

Fraud, Illegal Acts, and Other Noncompliance

321

The auditor should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements. In addition, the auditor should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.

The auditor should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditor should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

Auditors are responsible for being aware of the characteristics and types of potentially material irregularities that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material irregularities.

Auditors should obtain an understanding of the possible effects on financial statements of laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of amounts in the financial statements. Auditors may find it necessary to use the work of legal counsel in:

- Determining which laws and regulations might have a direct and material effect on the financial statements;
- Designing tests of compliance with laws and regulations; and
- Evaluating the results of those tests.

Auditors also may find it necessary to use the work of legal counsel when an audit requires testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, or the applicable law enforcement authority.

Auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require auditors to report indications of certain types of irregularities or illegal acts to law enforcement or investigative authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order to not interfere with an investigation.

An audit made in accordance with generally accepted government auditing standards will not guarantee the discovery of illegal acts or contingent liabilities resulting from those acts. Nor does the subsequent discovery of illegal acts committed during the audit period necessarily mean that the auditor's performance was inadequate, provided the audit was made in accordance with those standards.

In fulfilling the requirements above, the auditor should follow the guidelines contained in SAS No. 82, "Consideration of Fraud in a Financial Statement Audit," and SAS No. 54, "Illegal Acts by Clients." SAS No. 82 supersedes SAS No. 53 and is effective for financial audits for periods ending on or after December 15, 1997. SAS No. 82 clarifies but does not increase the auditor's responsibility to detect fraud.

OTHER ISSUES (continued)

320

Reliance on the Work of Other Auditors

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Professional auditing standards require that specific audit procedures be performed to examine the scope and quality of the work completed by another auditor before reliance is placed on that work.

Auditors should refer to the authoritative auditing guides for the specific evaluation procedures necessary.

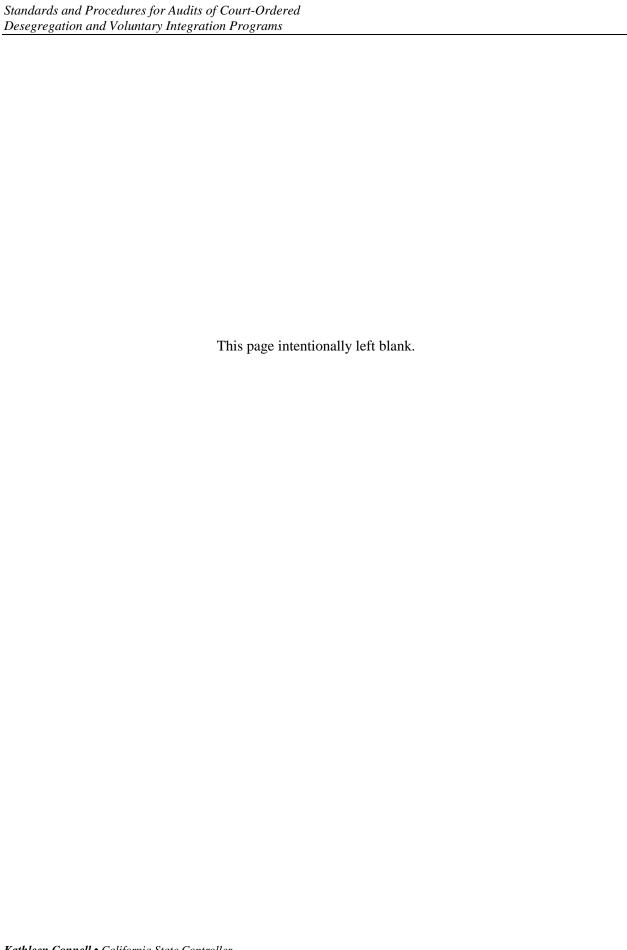
Materiality 323

Auditors' consideration of materiality is a matter of professional judgment and is influenced by their perception of the needs of a reasonable person who will rely on the financial statements. Materiality judgments are made based on surrounding circumstances and necessarily involve both quantitative and qualitative considerations.

In its Statement of Financial Accounting Concepts No. 2, the Financial Accounting Standards Board defined materiality in these terms: "The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

For additional guidance, refer to AU Section 312, "Audit Risk and Materiality in Conducting an Audit," of the AICPA's Codification of Statements on Auditing Standards.

SECTION 400 COMPLIANCE REQUIREMENTS



400

COMPLIANCE REQUIREMENTS

INTRODUCTION 410

Education Code Sections 42243.6 and 42249, in conjunction with Education Code Section 42247, provide for the reimbursement of school districts for desegregation costs mandated by the court pursuant to final court orders issued after January 1, 1978, and for costs incurred to maintain a voluntary integration program designed to remedy the harmful effects of racial segregation.

INDIRECT COST RATES 420

School districts and county offices of education may claim supportable indirect costs incurred in compliance with a court-ordered desegregation program or voluntary integration program. Such claimants should use the California Department of Education's approved J-380 or J-580 rate applicable to the fiscal year of costs under audit.

OFFSET AGAINST CLAIMS 430

When part or all of the costs of a program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation), only that portion of any increased cost payable from school district funds is eligible for reimbursement under the provisions of Education Code Section 42247.

State school fund apportionments and federal aid for education based on average daily attendance and block grants that do not provide for specific reimbursement of costs (i.e., allocation formulas not tied to expenditures), and which are part of the general system of financing public schools, should not be included as reimbursements from local assistance revenue sources. Costs incurred under Education Code Section 42247 are to be reduced only for grants and special projects funded by state, federal, or other sources that specifically reimburse costs that might also be claimable under Education Code Section 42247. Auditors should determine that the "Offset Against Claim" for applicable federal and state local assistance programs has been calculated and reported properly.

AUDIT OF COSTS 440

Education Code Sections 42243.6, 42247, and 42249, et al., require that submission of reimbursement claims shall be accompanied by a report from the auditing entity by November 30 following the fiscal year in which costs were incurred unless the auditing entity is the State Controller's Office, Division of Audits. In the absence of an audit report, monies received by schools for estimated claims, if any, must be returned to the State Controller's Office, Division of Accounting and Reporting. School districts may make a contractual arrangement with the State Controller's Office, Division of Audits, or with another auditing entity for performance of the audit.

COURT-ORDERED DESEGREGATION PROGRAM

Education Code Section 42243.6, in conjunction with Section 42247, provides for reimbursement to school districts of costs mandated by the court, as defined in Revenue and Taxation Code Section 2205, pursuant to final court orders issued after January 1, 1978.

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Reimbursement Requirements

As a part of the requirements for reimbursement pursuant to Education Code Section 42243.6, Section 42247.1 requires school districts to submit a copy of the district's most recent desegregation plan and/or court order to the State Controller's Office and to the Superintendent of Public Instruction.

A school district need not submit another copy of the plan if the current plan was submitted to the State Controller's Office with an earlier claim. However, if any additions, changes, or deletions are made to the court order or the plan, a copy of the amended court order or plan must be submitted to the State Controller's Office.

Reimbursable Costs 452

The increased costs incurred by school districts in implementing required elements of court orders to desegregate are reimbursable under the provisions of Education Code Sections 42243.6 and 42247.

In determining the allowability of increased costs, the auditor must determine that the specific increases in cost are directly attributable to the court order.

The following are examples of increased costs.

- 1. The school district maintains a student/teacher ratio of 25:1 using regular education funds. The school district implements a magnet school for the desegregation program. One of the desegregation program objectives for the magnet school is to reduce class size. To receive reimbursement, the district must reduce the student/teacher ratio. If the district reduced the ratio to 22:1, only the increased staffing positions are eligible for reimbursement, provided the increase is specifically attributable to the court order, is necessary to reduce class size, and does not supplant existing programs.
- 2. Based on a formula using annual average daily attendance (ADA), each school within a district receives a certain amount of regular education funds for books and supplies. The district used the formula in establishing the allocation of regular education funds before the inception of the desegregation program. Based on ADA, the district has set the general allocation amount at \$500 for a specific desegregation school site. To receive reimbursement, the district must spend in excess of the regular education allocation. If the district spent \$550 for books and supplies at the school, only \$50 is eligible for reimbursement, provided the increase is specifically attributable to the court order, does not supplant existing programs, and is not due to an increase in attendance or the revenue limit.
- 3. A school district provides home-to-school transportation for its students. The desegregation program supports the voluntary transfer of students to bring about a greater racial/ethnic balance. In the fiscal year before the program is implemented, the district's buses cover 10,000 miles a year to provide home-to-school transportation. After implementation of the desegregation program, the buses cover 11,000 miles a year. Only the 1,000 miles directly attributable to the desegregation program represent increased mileage. Reimbursable costs would be calculated by taking the increased mileage multiplied by an approved mileage rate, provided the increased miles are specifically attributable to the court order and not to an increase in ADA.

451

Analysis of Revenues and Expenditures

An overall analysis of a school district's regular education and other state, federal, and local program revenues and expenditures is needed to determine increased costs. A school district cannot create increased costs by shifting general education costs to the desegregation program. Similarly, the claiming of expenditures specifically reimbursed through various state, federal, and local programs does not constitute increased costs.

Excluded Costs 454

Certain types of costs are specifically excluded from reimbursement under the provisions of *Education* Code Section 42247(d). Costs related to facilities, including school construction, reconstruction, replacement of facilities, purchase of facilities, purchase of land, or modernization of facilities, are excluded from reimbursement. This includes making structural modifications or improvements to facilities.

The provisions of the Budget Act may contain further restrictions related to expenditures and/or specific performance objectives related to the funds appropriated under the act. For example, funds appropriated for both court-ordered desegregation and voluntary integration in the Budget Act of 2000-2001 "shall not be used to reimburse local education agency claims for facilities lease costs, school construction, reconstruction, replacement of facilities, purchase of land, or the performance of deferred maintenance activities on facilities."

It is the auditor's continuing responsibility to review any changes to the Education Code or Budget Act necessary to assess program compliance.

Reimbursement Limit Calculation

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Auditors must include a schedule of the reimbursement limit calculation in the audit report. An example of the reimbursement limit calculation is included with the illustrative Court-Ordered Desegregation Program report in Appendix A.

In accordance with Education Code Section 42247, et al., the reimbursement for FY 2000-2001 shall not exceed the sum of paragraphs 1 and 2 below:

- 1. The 1999-2000 fiscal year adjusted base amount, increased by the cost-of-living adjustments pursuant to Education Code Section 42238.1, and by the percentage increase in the annual average daily attendance (ADA) from FY 1999-2000 through FY 2000-2001; and
- 2. Eighty percent of the excess between FY 1999-2000 actual audited costs and the amount calculated in paragraph 1.

School districts are not penalized for negative growth in annual ADA. If the school district experienced a decline in annual ADA, the effective percentage increase for the reimbursement limit calculation is zero.

In the first year of implementation, new court-ordered programs are entitled to 100% reimbursement of actual costs.

VOLUNTARY INTEGRATION PROGRAM

460

Education Code Section 42249, in conjunction with Section 42247, provides reimbursement for costs incurred by school districts or collaborations of school districts to maintain a voluntary integration program designed to remedy the harmful effects of racial segregation.

Reimbursement Requirements

461

As part of the requirement for reimbursement pursuant to *Education Code* Section 42249, Section 42247.1 requires school districts or collaborations of school districts to submit a copy of the most recent integration plan adopted by the local governing board(s) to the State Controller's Office, Accounting and Reporting Division, and to the Superintendent of Public Instruction.

A district need not submit a copy of the plan if the current plan was submitted with an earlier claim. However, if any additions, changes, or deletions are made to the plan, a copy of the amended plan must be submitted to the State Controller's Office.

Reimbursable Costs 462

The **increased** costs incurred by school districts or collaborations in implementing the components of a voluntary integration program plan are reimbursable under the provisions of *Education Code* Sections 42247 and 42249.

In determining the allowability of increased costs, the auditor must determine that the specific increases in cost are directly attributable to the integration program plan.

The following are examples of increased costs.

- 1. A school district maintains a student/teacher ratio of 25:1 using regular education funds. The school district has a racially isolated minority school (RIM) for the integration program. One of the integration program objectives for the RIM school is to reduce class size. To receive reimbursement, the district must reduce the student/teacher ratio. If the district reduced the ratio to 22:1, only the increased staffing positions are eligible for reimbursement, provided that the increase is specifically attributable to the program plan and does not supplant existing programs.
- 2. Based on a formula using annual average daily attendance (ADA), each school within a district receives a certain amount of regular education funds for books and supplies. The district used the formula in establishing the allocation of regular education funds before the inception of the integration program. Based on ADA, the district has set the general allocation amount at \$500 for a specific integration school site. To receive reimbursement, the district must spend in excess of the regular education allocation. If the district spent \$550 for books and supplies at the school, only \$50 is eligible for reimbursement, provided the increase is specifically attributable to the program plan, does not supplant existing programs, and is not due to an increase in attendance or the revenue limit.
- 3. A school district provides home-to-school transportation for its students. The integration program supports the voluntary transfer of students to bring about a greater racial/ethnic balance. In the fiscal year before the program is implemented, the district's buses cover 10,000 miles a year to provide home-to-school transportation. After implementation of the integration program, the buses cover 11,000 miles a year. Only the 1,000 miles directly attributable to the integration program represents increased mileage. Reimbursable costs would be calculated by taking the increased mileage

multiplied by an approved mileage rate, provided the mileage increase is specifically attributable to the program plan and not to a general increase in ADA.

Analysis of Revenues and Expenditures

463

An overall analysis of a school district's regular education and other state, federal, and local program revenues and expenditures may be required to determine increased costs. A school district cannot create increased costs by reducing the allocation of general expenditures and shifting the regular education costs to the integration program. Similarly, the claiming of expenditures specifically reimbursed through various state, federal, and local programs does not constitute increased costs.

Excluded Costs 464

Certain types of costs are specifically excluded from reimbursement under the provisions of Education Code Section 42247(d). Costs related to facilities, including school construction, reconstruction, replacement of facilities, purchase of facilities, purchase of land, or modernization of facilities, are excluded from reimbursement.

The provisions of the Budget Act may contain further restrictions related to expenditures and/or specific performance objectives related to the funds appropriated under the act. For example, funds appropriated for voluntary integration programs in the Budget Act of 2000-2001 "shall not be used to reimburse local education agency claims for facilities lease costs, school construction, reconstruction, replacement of facilities, purchase of existing facilities, purchase of land, or the performance of deferred maintenance activities on facilities."

It is the auditor's continuing responsibility to review any changes to the Education Code or Budget Act necessary to assess program compliance.

Reimbursement Limit Calculation

465

Auditors must include a schedule of the reimbursement limit calculation in the audit report. An example of the reimbursement limit calculation is included with the illustrative Voluntary Integration Program Audit Report in Appendix A.

In accordance with Education Code Section 42247, et al., the reimbursable amount for FY 2000-2001 is the lesser of either:

- 1. The FY 1999-2000 adjusted base amount, increased by the cost-of-living adjustment pursuant to Education Code Section 42238.1, and by the percentage increase in annual average daily attendance from FY 1999-2000 through FY 2000-2001; or
- 2. Eighty percent of the actual FY 2000-2001 audited costs.

School districts are not penalized for negative growth in annual ADA. If the school district experienced a decline in annual ADA, the effective percentage increase for the reimbursement limit calculation is zero.

In the first year of implementation, new programs are entitled to 80% reimbursement of actual costs.

PROGRAM COMPONENTS

470

Voluntary integration programs eligible for reimbursement under Education Code Section 42249 are limited to the following four components.

Voluntary Pupil Assignment or Reassignment Programs

- 1. Voluntary pupil assignment programs improve the racial/ethnic balance of schools in the district. Activities include identifying students, recruiting, counseling, and record keeping. Reimbursable activities include:
 - Salary and fringe benefits of an employee performing assignment or reassignment activities for integration purposes only. Assignment activities for space purposes, limited non-English proficiency, and other such activities are not reimbursable.
 - Other costs directly related to the maintenance or operation of integration program activities (e.g., supplies and mileage).
- 2. Supplemental instruction costs for pupils attending a school other than their home school to enhance racial/ethnic balance include:
 - Salary and fringe benefits of an employee (such as a resource specialist or teacher's aide) providing services solely to the reassigned students.
 - Costs of supplemental equipment, textbooks, and other instructional material required for reassigned students. Basic instruction materials are not reimbursable.

Magnet Schools or Centers

472

471

- 1. Only the costs of maintaining specialized educational programs that exceed the district's regular education allocations of staff and resources for instructional purposes are reimbursable, such as:
 - Certificated and classified employees' salaries and benefits for additional staffing;
 - Textbooks and other instructional materials exceeding regular education allocations; and
 - Additional equipment necessary for the operation of magnet educational programs. The purchase or lease of facilities, construction, reconstruction, modernization, and deferred maintenance costs are not reimbursable under the *Education Code* and budget language restrictions.
- 2. Administrative costs of maintaining magnet schools or centers, including planning and recruitment costs, are reimbursable only if they exceed the regular education administrative level.

Transportation of Pupils to Alternative Schools or Programs of Their Choice

473

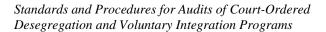
The cost of providing transportation of pupils attending a voluntary pupil assignment or reassignment program and magnet schools or centers, less any transportation reimbursement or allowance, is reimbursable. Reimbursable costs include operating district-owned transportation, using contracted transportation, providing tickets or passes for pupil use of public transportation, and the cost of transportation planning, routing, and dispatching. The depreciation allowance for district-owned buses is reimbursable for eligible transportation elements directly attributable to integration students.

Racially Isolated Minority Schools

474

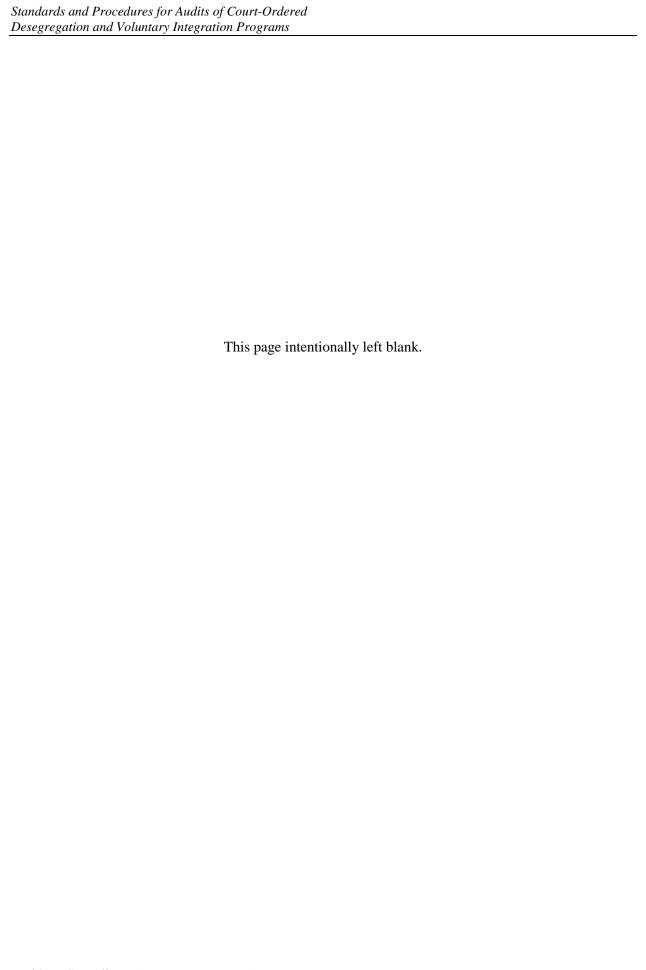
Staff development programs, instructional materials and supplies, and other programs to combat the harmful effects of racially isolated minority schools, as defined and adopted by the local governing boards, are reimbursable. These costs include, but are not limited to, the following:

- 1. New parent training and involvement programs;
- 2. Instructional programs to increase achievement in language arts, mathematics, and science;
- 3. Reduction in classroom size (pupil/teacher ratio);
- 4. Necessary support staff; and
- 5. An evaluation component to determine the effectiveness of the racially isolated minority school programs.



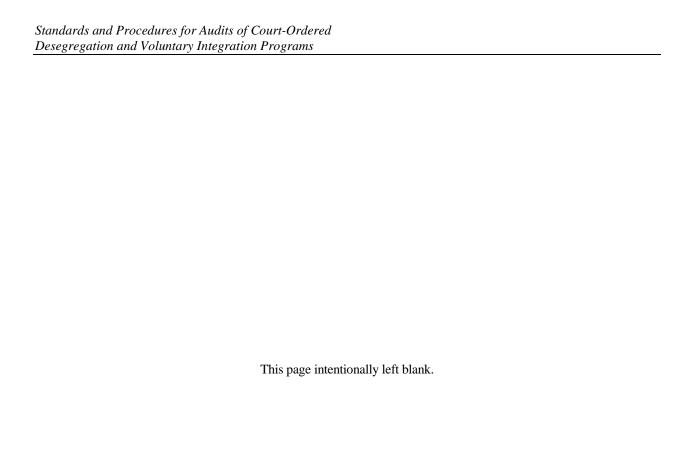
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Appendix A — Illustrative Audit Reports



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XYZ SCHOOL DISTRICT

Audit Report

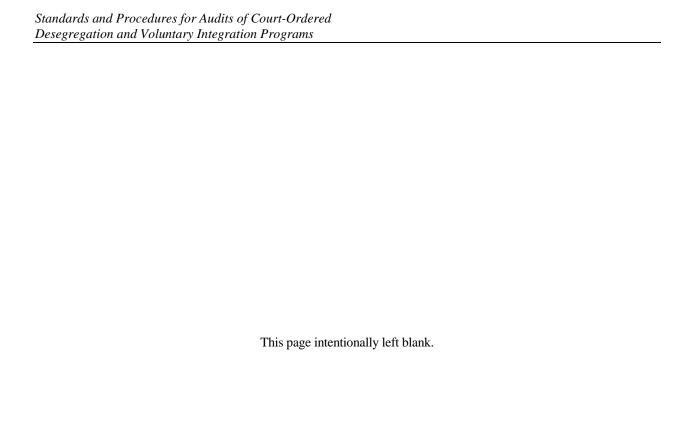
COURT-ORDERED DESEGREGATION PROGRAM

Education Code Sections 42243.6 and 42247

July 1, 20X0, through June 30, 20X1

[Accounting Firm Name]

[Issue Month/Year]



[Accounting Firm Letterhead]

[1	2-4-7
[Issue I	jate j

Governing Board XYZ School District 1983 Golden Bear Avenue Sacramento, CA 95814

Dear Board Members:

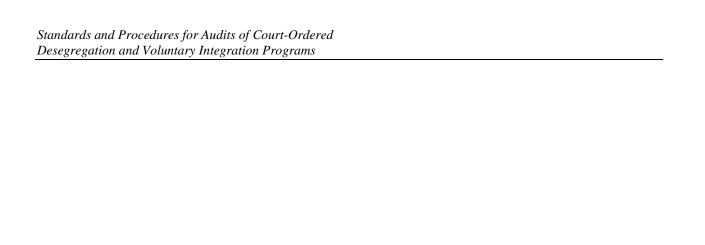
The following is our final report regarding the claims of the XYZ School District for reimbursement of costs incurred in implementing the Court-Ordered Desegregation Program, pursuant to Education Code Sections 42243.6 and 42247, for the period of July 1, 20X1, through June 30, 20X1.

If you have any questions, please contact John Doe, audit manager, at (916) 555-1234.

Sincerely,

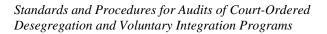
[Accounting Firm]

Joe Brown, Superintendent cc: XYZ School District Superintendent of Public Instruction



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Audit Report

Summary

We have audited the claims for reimbursement of the XYZ Unified School District, in Sacramento, California, for costs incurred in implementing the Court-Ordered Desegregation Program for the period of July 1, 20X0, through June 30, 20X1.

The district claimed \$12,018,375 during the audit period. We determined that \$11,556,375 is allowable. The balance of \$462,000 is disallowed, and should be returned to the State. The disallowed costs resulted from unallowable magnet school costs and unallowable legal fee costs.

Background

The federal court ordered that the XYZ Unified School District provide a program that alleviates the harmful effects of racial segregation. Education Code Sections 42243.6 and 42247 allow the district to file a claim for reimbursement with the State of California for the increased costs incurred in providing the desegregation program. The XYZ Unified School District has been claiming reimbursement of costs since fiscal year (FY) 19X5-19X6.

Under Education Code Sections 42243.6 and 42247, the district is required to have annual audits of the program performed. This audit was performed under a contractual agreement between [the accounting firm] and the XYZ Unified School District.

Objective, Scope, and Methodology

The objective of the audit was to determine whether costs claimed, as presented in the Summary of Program Costs (Schedule 1) and the Reimbursement Limit Calculation (Schedule 2) complied with the terms of Education Code Sections 42243.6 and 42247 for the period of July 1, 20X0, through June 30, 20X1.

We performed the following procedures:

- Compared the costs claimed to the terms of the court order to determine whether the costs were in compliance with the terms of the court order;
- Reviewed the costs claimed to determine whether they were increased costs resulting from the final court order;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source and were not used to supplant district effort in the regular education program; and
- Reviewed the costs claimed to determine whether the costs were unreasonable or excessive.

We conducted the audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. The scope was limited to the planning and performance of audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Our review of the internal control structure was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. Those instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report. The XYZ Unified School District claimed \$12,018,375 for expenditures incurred to comply with orders of the federal court pursuant to Education Code Sections 42243.6 and 42247. We determined that the total claimed amount included net unallowable costs of \$462,000.

Views of Responsible **Officials**

The audit results were discussed with Joe Brown, Superintendent, and other district officials during an exit conference held on August 1, 20X1.

District staff agreed with the audit findings presented in this report.

Restricted Use

This report is intended solely for the information and use of the State Controller's Office and the XYZ Unified School District and is not intended to be and should not be used by anyone other that these specified parties. This restriction is not meant to limit the distribution of this report, which is a matter of public record.

[Accounting Firm Name] [Date]

Findings and Recommendations

FINDING 1— Unallowable magnet school costs

The district claimed the costs of regular education staff in the magnet school program instead of the increased costs incurred as a result of the court-ordered desegregation program. We disallowed the costs that did not exceed the district's regular education allocation of staff.

Education Code Section 42247 states, in part, "Claims for reimbursement of desegregation program costs shall be subject to audit . . . to determine . . . that the costs are costs in excess of the district's expenditure levels for regular educational programs...."

Therefore, the district claimed unallowable costs as follows:

<u>Category</u>	<u>Audi</u>	t Adjustment
Certificated salaries	\$	350,000
Classified salaries		75,000
Employee benefits		75,000
Total ineligible costs		500,000
Associated indirect costs		25,000
Audit adjustment	\$	525,000

Recommendation

The district should claim only costs that are increased, over and above the regular education allocation, as a result of implementation of a magnet school program.

FINDING 2 — Unallowable legal fee costs

The district claimed legal fee costs that are not ordered by the court or related to the implementation of the court-ordered desegregation program. We disallowed costs that are not related to the implementation of the desegregation program.

Education Code Section 42247 states, in part, "Claims for reimbursement of desegregation program costs shall be subject to audit . . . to determine . . . that the costs are neither excessive nor unreasonable."

Therefore, the district claimed unallowable costs as follows:

<u>Category</u>	<u>Audit</u>	Adjustment
Contracted services	\$	50,000
Associated indirect costs		2,500
Audit adjustment	\$	52,500

Recommendation

The district should claim only costs that are related to the implementation of the court order.

Schedule 1 — **Summary of Program Costs** July 1, 20X0, through June 30, 20X1

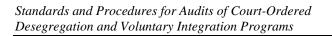
Cost Components	Claimed Costs	Allowable Costs	Audit Adjustments	Reference ¹
Staff development	\$ 500,000	\$ 500,000	\$ 0	
Magnet schools	7,500,000	7,000,000	(500,000)	Finding 1
Transportation	3,000,000	3,000,000	0	
Legal fee judgment	300,000	250,000	(50,000)	Finding 2
School security	500,000	500,000	0	
Total direct costs	11,800,000	11,250,000	(550,000)	
Indirect costs	590,000	562,500	(27,500)	Findings 1 and 2
Total costs	12,390,000	11,812,500	(577,500)	
Reimbursement limit adjustment	(371,625)	(256,125)	115,500	2
Totals	\$ 12,018,375	\$ 11,556,375	\$ (462,000)	

¹ See Findings and Recommendations section.

² As a result of the ineligible program costs identified in Findings 1 and 2, the district's reimbursement limit was overstated by \$115,500. See Schedule 2 for reimbursement limit calculation. The district used the correct adjusted base year and applied the correct ADA and COLA percentages.

Schedule 2 — **Reimbursement Limit Calculation July 1, 20X0, through June 30, 20X1**

Line	Description Claimed		Claimed		Audited	
1.	Base year costs	\$	10,000,000	\$	10,000,000	
2.	Average daily attendance (ADA) adjustment factor		2.50%		2.50%	
3.	ADA adjustment (line 1 x line 2)	\$	250,000	\$	250,000	
4.	ADA adjusted base year (line 1 + line 3)	\$	10,250,000	\$	10,250,000	
5.	Inflation adjustment factor		2.75%		2.75%	
6.	Inflation adjustment (line 4 x line 5)	\$	281,875	\$	281,875	
7.	Adjusted base year (line 4 + line 6)	\$	10,531,875	\$	10,531,875	
8.	Program costs	\$	12,390,000	\$	11,812,500	
9.	Difference in costs (line 8 – line 7)	\$	1,858,125	\$	1,280,625	
10.	Cost contribution (line 9 x 80%)	\$	1,486,500	\$	1,024,500	
11.	Adjusted base year (line 7)	\$	10,531,875	\$	10,531,875	
12.	Reimbursement limit (line 10 + line 11)	\$	12,018,375	\$	11,556,375	
13.	Reimbursement limit adjustment (line 12 – line 8)	\$	(371,625)	\$	(256,125)	
14.	Change in limit reduction (line 13 [audited – claimed])			\$	115,500	



XYZ UNIFIED SCHOOL DISTRICT

Audit Report

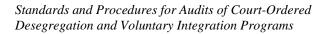
VOLUNTARY INTEGRATION PROGRAM

Education Code Sections 42247 and 42249

July 1, 20X0, through June 30, 20X1

[Accounting Firm Name]

[Issue Month/Year]



[Accounting Firm Letterhead]

•	[Issue Date]	

Governing Board XYZ Unified School District 1983 Golden Bear Avenue Sacramento, California 95814

Dear Board Members:

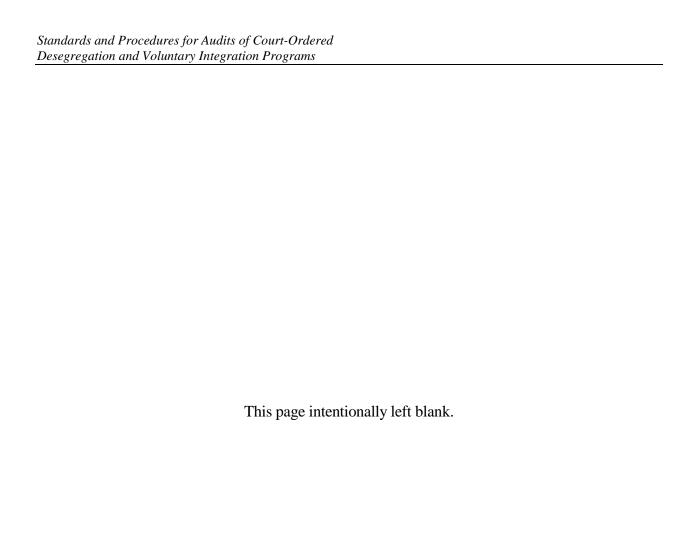
The following is our final report regarding the claim of the XYZ Unified School District for the Voluntary Integration Program, Education Code Sections 42247 and 42249, for the period of July 1, 20X0, through June 30, 20X1.

If you have any questions, please contact John Doe, audit manager, at (916) 555-1234.

Sincerely,

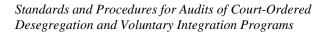
[Accounting Firm]

cc: Joe Brown, Superintendent XYZ Unified School District Superintendent of Public Instruction



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Audit Report

Summary

We have audited the claims for reimbursement of the XYZ Unified School District in Sacramento, California, for the Voluntary Integration Program for the period of July 1, 20X0, through June 30, 20X1.

The district claimed \$4,739,344 during the audit period. We determined that \$3,990,000 is allowable. The balance of \$749,344 is disallowed and should be returned to the State. The disallowed costs resulted from unallowable magnet school costs, ineligible transportation costs and unallowable racially isolated minority school costs.

Background

In 1982, the California State Legislature passed a law allowing school districts that voluntarily integrate their schools to be reimbursed for the cost of desegregation. In fiscal year (FY) 19X8-X9, the XYZ School District initiated a program designed to alleviate the harmful effects of racial segregation. The district has been claiming reimbursement of costs since FY 19X8-X9 under *Education Code* Sections 42247 and 42249. These code sections provide guidelines that allow the district to file a claim for reimbursement with the State of California for the increased costs incurred in providing the voluntary integration program. Under *Education Code* Sections 42247 and 42249, the district is required to have annual audits of the program performed. This audit was performed under a contractual agreement between the accounting firm and the XYZ School District.

Objective, Scope, and Methodology

The objective of the audit was to determine whether costs claimed, as presented in the Summary of Program Costs (Schedule 1) and the Reimbursement Limit Calculation (Schedule 2), complied with the terms of *Education Code* Sections 42247 and 42249 for the period of July 1, 20X0, through June 30, 20X1.

We performed the following procedures:

- Determined whether claimed costs were attributable to the district's integration plan;
- Analyzed the costs claimed to determine whether they were unreasonable and/or excessive;
- Confirmed that the costs claimed were not funded by another source and were not used to supplant the district's regular education funding;
- Reviewed the source documentation to determine whether the costs claimed were properly supported; and
- Analyzed the costs to determine whether they were over and above the district's regular education funding.

We conducted the audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. The scope was limited to the planning and performance of audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Our review of the internal control structure was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. Those instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report. The XYZ School District claimed \$4,739,344 for expenditures incurred in providing a voluntary integration program pursuant to Education Code Sections 42247 and 42249. We determined that the total claimed amount included unallowable costs of \$749.344.

Views of Responsible **Officials**

The audit results were discussed with Joe Brown, Superintendent, and other district officials during an exit conference held on August 1, 20X1.

District staff agreed with the audit findings presented in this report.

Restricted Use

This report is intended solely for the information and use of the State Controller's Office and the XYZ Unified School District and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not meant to limit the distribution of this report, which is a matter of public record.

[Accounting Firm Name] [Date]

Findings and Recommendations

FINDING 1 — Unallowable magnet school costs The district claimed facilities-related costs that are ineligible according to the *Education Code*. The district purchased portables and modernized existing school sites to implement certain portions of the integration program.

Education Code Section 42247 (d) states, "Claims for reimbursement of desegregation program costs shall not include costs for school construction, reconstruction, replacement of facilities, purchase of facilities, purchase of land, or modernization of facilities."

Therefore, the district claimed unallowable costs as follows:

Category	Audit Adjustmen		
Equipment	\$	500,000	
Associated indirect costs		25,000	
Audit adjustment	\$	525,000	

Recommendation

The district should claim only costs that are allowable in accordance with the *Education Code*.

FINDING 2 — Ineligible transportation costs

The district claimed ineligible transportation costs. The district could not demonstrate that the costs resulted from an increased level of effort to implement the integration program. Mileage on the district's J-141 cost report submitted to the California Department of Education (CDE) is consistent with the mileage from prior years, before the integration program was implemented. The district receives a transportation apportionment from CDE for its current level of home-to-school mileage.

Education Code Section 42247 states, in part, "Claims for reimbursement of desegregation program costs shall be subject to audit . . . to determine . . . that the costs are costs <u>in excess of</u> the district's expenditure levels for regular educational programs" [emphasis added].

The State Controller's Office claiming instructions for voluntary integration programs state, "When part or all of the costs of a program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation, etc.), only that portion of any increased costs payable from school district funds is eligible for reimbursement under the provisions of section 42247."

Therefore, the district claimed unallowable costs as follows:

Category	Audit Adjustment		
Contracted services	\$	300,000	
Associated indirect costs		15,000	
Audit adjustment	\$	315,000	

Recommendation

The district should claim only those transportation costs that are increased as a result of activities attributable to the integration program.

FINDING 3— Unallowable racially isolated minority school costs

The district claimed the costs of regular education staffing in the racially isolated minority (RIM) schools program instead of the increased costs incurred to implement the integration program. One of the objectives of the integration program, RIM component, is to reduce class size. However, at one site class sizes were not reduced below their regular education level. The district also claimed staff for a site that does not meet the criteria for a RIM school, as set forth by the local governing board. We disallowed the costs that did not exceed the district's regular education allocation of staff or meet the criteria for a RIM school.

Education Code Section 42247 states, in part, "Claims for reimbursement of desegregation program costs shall be subject to audit . . . to determine ... that the costs are costs in excess of the district's expenditure levels for regular educational programs" [emphasis added].

Education Code Section 42247 states, in part, "Claims for reimbursement of desegregation program costs shall be subject to audit . . . to determine ... that the costs are neither excessive nor unreasonable."

Therefore, the district claimed unallowable costs as follows:

Category	Audit Adjustment	<u>S</u>
Certificated salaries	\$ 80,000	
Classified salaries	50,000	
Employee benefits	20,000	
Total ineligible costs	150,000	
Associated indirect costs	7,500	
Audit adjustment	\$ 157,500	

Recommendation

The district should claim only costs that are increased, over and above the regular education costs, as a result of implementation of an integration program and for sites that meet the criteria for a RIM school as set forth by the governing board.

Schedule 1 — Summary of Program Costs July 1, 20X0, through June 30, 20X1

Claim Components	_	Claimed Costs	Audited Costs	A	Audit adjustments	Reference 1
Voluntary pupil assignment	\$	200,000	\$ 200,000	\$	0	
Magnet schools		3,000,000	2,500,000		(500,000)	Finding 1
Transportation		2,000,000	1,700,000		(300,000)	Finding 2
Racially isolated minority schools		500,000	350,000		(150,000)	Finding 3
Total direct costs		5,700,000	4,750,000		(950,000)	
Indirect costs		285,000	237,500		(47,500)	Findings 1, 2, 3
Total program costs		5,985,000	4,987,500		(997,500)	
Reimbursement limit adjustment		(1,245,656)	(997,500)		248,156 ²	
Totals	\$	4,739,344	\$ 3,990,000	\$	(749,344)	

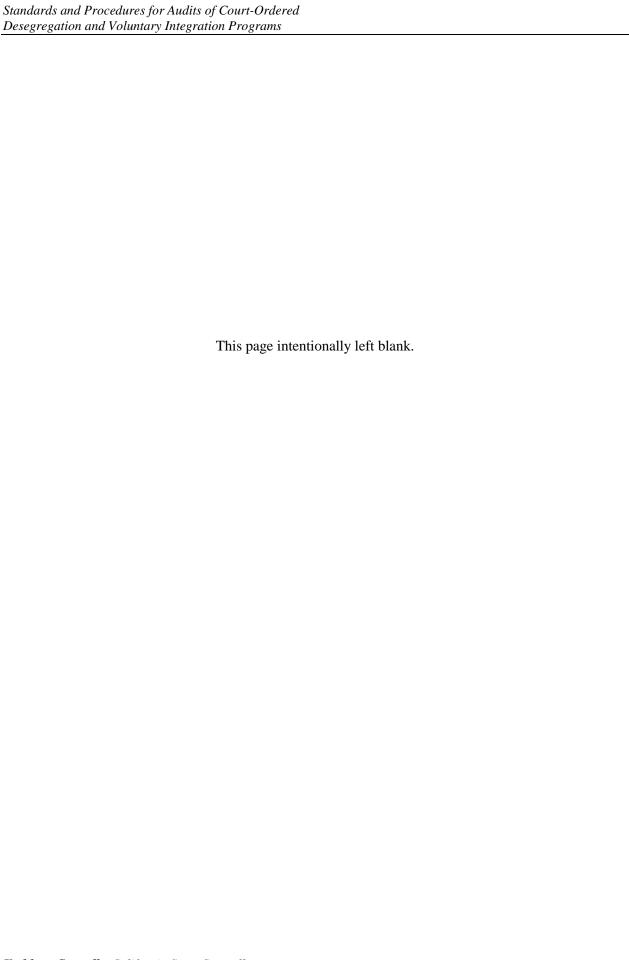
¹ See Findings and Recommendations section.

² As a result of the ineligible program costs identified in Findings 1 through 3, the district's reimbursement limit adjustment was overstated by \$248,156. See Schedule 2 for reimbursement limit calculation.

Schedule 2 — **Reimbursement Limit Calculation** July 1, 20X0, through June 30, 20X1

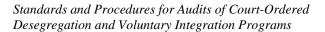
Line	Description Claimed		Audited	
1.	Base year costs	\$ 4,500,000	\$ 4,500,000	
2.	Average daily attendance (ADA) adjustment factor	2.50%	2.50%	
3.	ADA adjustment (line 1 x line 2)	\$ 112,500	\$ 112,500	
4.	ADA adjusted base year (line 1 + line 3)	\$ 4,612,500	\$ 4,612,500	
5.	Inflation adjustment factor	2.75%	2.75%	
6.	Inflation adjustment (line 4 x line 5)	\$ 126,844	\$ 126,844	
7.	Adjusted base year (line 4 + line 6)	\$ 4,739,344	\$ 4,739,344	
8.	Fiscal year 19XX-X0 program costs (100%)	\$ 5,985,000	\$ 4,987,500	
9.	Fiscal year 20X0-X1 program costs (80%)	\$ 4,788,000	\$ 3,990,000	
10.	Reimbursement limit (lesser of line 7 or line 9)	\$ 4,739,344	\$ 3,990,000	
11.	Reimbursement limit adjustment (line 10 - line 8)	\$ (1,245,656)	\$ (997,500)	
12.	Change in limit reduction (line 11 [claimed – audited])		\$ 248,156	

Appendix B — Illustrative Audit Programs



Contents

Court-Ordered Desegregation Program Illustrative Audit Program			
Voluntary Integration Program	B-1		



AUDIT PROGRAM COURT-ORDERED DESEGREGATION PROGRAM (CFM)

AUDITEE:			
AUDIT PERIOD: _			
AUDIT I.D. NO(S).:			
AIC:			
_			

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PURPOSE AND PROGRAM INTENT

Education Code Section 42243.6 provides the basis for audits of court-mandated actual cost claims. The statute requires the State Controller to review all claims prior to payment to determine that the costs claimed: (1) do not exceed the amount required to meet the court order; (2) do not result from litigation entered into to avoid the revenue limit; (3) do not result from an erroneous conclusion that the costs are mandated; and (4) are not excessive or unreasonable.

Claims are submitted to the State Controller's Office for the prior year's actual expenditures and the current year's estimated and budgeted expenditures. Costs may be categorized as (1) salaries and employee benefits, (2) books and supplies, (3) contracted services, (4) equipment, and (5) indirect costs.

AUDIT OBJECTIVES

In accordance with the requirements of *Education Code* Sections 42243.6 and 42247, the objectives of this audit are to determine: (1) that the costs and programs are for the purposes of desegregation or alleviation of the harmful effects of racial segregation, as provided in the plan submitted by the school district pursuant to Section 42247.1; (2) that the costs are in excess of the school district's expenditure levels for regular educational programs; and (3) that the costs are neither excessive nor unreasonable.

AUDIT CRITERIA

Reference	Discussion
Claiming Instructions	Specifies claiming process, including instructions, forms, appropriations for districts, legislation, and general program information.
Revenue and Taxation Code Section 2205	Defines court-mandated costs.
Education Code Section 42243.6	Describes the reimbursement process for costs mandated by courts.
Education Code Section 42247	Specifies reimbursement provisions, allowable costs, annual audit of claims, and specific program exclusions.
Budget Act	Provides appropriation for the payment of each school district's fiscal year claims and specific reimbursement provisions. (The Final Budget Summary also contains restrictions on expenditures.)
Court orders related to the district	Outlines activities, programs, etc., to be undertaken by the district in order to desegregate the district's schools.

SPECIAL REQUIREMENTS

In concert with the auditor's objectives of determining the appropriateness of claimed costs, the auditor is reminded of the increased cost concept of *Education Code* Section 42247. This will require the determination of regular education school staffing levels. If the district has claimed costs for teachers, counselors, clerks, etc., the regular education allocation ratio must be determined for each classification. Only costs in excess of the district's regular education funding are reimbursable under this program. Supporting of effort is not allowable. Supplanting of effort is not allowable.

The auditor is also reminded that school district functions are reimbursed through the revenue limit and through additional state and federal programs. Only functions **not** reimbursed from other sources are eligible under this program. The auditor is referred to legal opinions and correspondence regarding reimbursement in the Court-Ordered Desegregation Program. The auditor must determine that costs claimed under this program are not claimed under the Voluntary Integration Program (*Education Code* Section 42249), in which case the allowable costs would be reduced.

AUDI	Γ PROCEDURES	Auditor's Initials	Date Completed	W/P Reference
A. Pro	eliminary Work			
Ot	ojective:			
rev	is section of the audit provides the auditor with a view and understanding of the program under audit, the ditee, and particular areas of special interest.			
Pro	ocedures:			
1.	Review appropriate documentation as identified in the Audit Criteria section of this program, as necessary. Review specific changes to the <i>Education Code</i> that may affect the court-ordered program.			
2.	Review permanent file, prior audit reports, and other available data pertinent to this assignment.			
3.	Contact the State Controller's Office, Division of Accounting, to determine if any questionable areas have been identified pertaining to these claims for reimbursement.			
4.	Prepare entrance letter, assignment sheet, and arrange for and conduct the entrance conference with auditee.			
5.	Determine if the district has filed for reimbursement under the Voluntary Integration Program (<i>Education Code</i> Section 42249). If so, determine if these claims should be or have been audited to prevent duplicate reimbursements.			
6.	Review all court orders and amendments affecting this program. If prior audits included a review of court orders, analyze any subsequent orders for program changes.			
7.	Review Budget Act to determine if there are any restrictions to program costs.			
8.	Include a certification form documenting the independence of each auditor assigned to the audit.			
9.	Perform an analytical review by comparing prior-year expenditures by program to current year to determine which programs will be selected for substantive testing.			

ΑU	DIT PROCEDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
B.	Audit Survey			
	Objective:			
	This section of the audit program provides the auditor with the information necessary to plan the duration of the audit.			
	Procedures:			
	1. Obtain copies of the most recent claims reimbursed. If possible, utilize claims as lead schedules with appropriate references to substantive working papers.			
	2. Inquire as to claiming procedures utilized to prepare claims for reimbursement. Ascertain strengths and weaknesses that may impact the extent of testing required during the substantive phase of the audit.			
	3. Determine if the district had a single audit performed by either a CPA or government agency. If a single audit was performed, determine if any work from the audit can be relied upon when performing this audit.			
	4. If additional audits were performed, obtain and review copies of the CPA's audit reports for the years being audited and the most recent management letters received from the CPA. Ascertain whether or not any weaknesses noted impact the extent of testing required during the substantive phase of this audit.			
	5. Review the latest report(s) of any court-appointed monitor that assesses the progress of the district's integration efforts.			
	6. Prepare a bridging document.			
C.	Audit Plan			
	Objective:			
	This section of the audit program completes the audit plan for the duration of the audit.			

AUDIT PROCEDURES (continued)

C. Audit Plan (continued)

Procedures:

- Prepare the Audit Planning Memorandum, noting background information, significant problem areas, the scope of substantive testing contemplated, an assignment budget, target dates, and obtain supervisory approval.
- 2. Update the actual audit hours against the budge hours assigned.

NOTE: During the course of the audit, if problems arise that require additional time for any phase of the audit, obtain supervisory approval prior to expanding the extent of testing contemplated in the original budget.

D. Substantive Audit Procedures

Objective:

This section provides general guidance regarding the substantive testing of cost categories claimed for reimbursement and documents exceptions taken by the auditor. Document the sampling methodology for each test in which sampling procedures are used.

Procedures:

1. Certificated and Classified Salaries

The purpose of this section is to determine that costs claimed are increased costs, supported by sufficient documentation and related to the implementation of the court order.

- a. Determine the number of increased positions or increased full-time equivalents (FTE) claimed. Test employment records to determine if new employees filled the positions. Only increased positions are eligible and must be offset by any savings at other locations.
- b. On a test basis, verify that employees are not performing general education duties.
- c. Test supporting documentation necessary to verify costs reported (i.e., payroll records, time sheets, etc.).

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AUDI	Γ PROCEDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
D. 1.	Certificated and Classified Salaries (continued)			
	d. Compare district average enrollment per teacher to average at integration schools.			
2.	Employee Benefits			
	This section provides for determining that employee benefits are properly stated for eligible employees.			
	 Verify benefit rates claimed. Determine that benefits are not claimed on substitute teachers or other employees for whom benefits are not paid. 			
	Note: Long-term substitute teachers may receive benefits.			
	b. Verify that unemployment insurance was not claimed. The district receives a revenue limit increase for these costs.			
3.	Books and Supplies			
	This section provides a determination that costs claimed for books and supplies are supported by sufficient documentation, are in excess of regular education allocations for operating expenditures, and are related to implementation of the court order.			
	a. Test books and supplies purchased to determine that they are not the same as general education material.			
	b. Test supporting documents necessary to verify cost reports (i.e., purchase orders, billing invoices, warrants, etc.).			
	c. Perform a physical inspection if considered necessary to determine that materials are being used on the integration program.			
4.	Contracted Services			
	This section provides a determination that costs reported are supported by sufficient documentation, are in excess of regular education allocations for operating expenditures, and are related to implementation of the court order.			

AUDIT	T PROCEDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
D. 4.	Contracted Services (continued)			
	a. Determine that transportation and other contracts followed established procedures (lowest bid, board approval, etc.).			
	b. Test buses claimed under the integration program to determine that they are being used for integration and not for special education or general education.			
	c. Test supporting documents necessary to verify costs.			
5.	<u>Equipment</u>			
	This section provides determinations that equipment costs are supported by sufficient documentation, are in excess of regular education allocations for operating expenditures, and are related to implementation of the court order.			
	a. Test equipment purchased to determine that it is an increased cost, necessary for the implementation of the court order.			
	b. Test supporting documents necessary to verify cost reports (i.e., purchase orders, billing invoices, warrants, etc.).			
	c. Perform a physical inspection if considered necessary to determine that equipment is being used on the integration program.			
6.	Indirect Costs			
	This section is to determine that the proper rate was applied to eligible expenditures.			
	Determine that the district used the J-380/580 indirect cost rate approved by the California Department of Education.			
7.	Review district's general education programs to determine if costs have increased or decreased in relation to enrollment. If general education costs have declined, determine if general education costs are being supplanted with desegregation funds. Allow only increased costs.			

AU	DIT	PROCEDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
D.	Ind	lirect Costs (continued)			
	8.	Reimbursement Limit Calculation			
		This section is to determine that the reimbursable limit specified in <i>Education Code</i> Section 42247 was compared to program cost expenditures.			
		a. Review the percentage increase in annual average daily attendance (ADA) and statutory cost-of-living adjustment (COLA). If ADA percentage is negative, use zero for the calculation.			
		b. Confirm prior year's adjusted base year with the prior auditor or State Controller's Office, Accounting and Reporting Division.			
		c. Perform reimbursement limit calculation to determine the proper reimbursement of eligible expenditures.			
	9.	Conduct an exit conference.			
E.	Re	porting Requirements			
	1.	Prepare audit point sheets.			
	2.	Prepare a draft audit report using the current format, incorporating the necessary schedules, and referencing them into the applicable audit working papers.			
	3.	Prepare final audit report incorporating any changes based on the draft report.			
					1

AUDIT PROGRAM **VOLUNTARY INTEGRATION PROGRAM (VIP)**

AUDITEE:	 	 	
AUDIT PERIOD: _			
SCO I.D.#:			
AIC:			

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PURPOSE AND PROGRAM AUDIT INTENT

Education Code Section 42249 provides the basis for audits of voluntary integration claims. Education Code Section 42247 provides that the State Controller may subsequently audit the claim. Education Code Section 42247 further provides that only costs that exceed expenditure levels for regular educational programs are eligible for reimbursement. Expenditures that are not already reimbursed by a federal, state, or local agency are eligible for reimbursement.

The Voluntary Integration Program allows school districts that maintain a voluntary integration program to present claims for reimbursement to the State Controller's Office, Accounting and Reporting Division. Costs are classified on the claim as: (1) voluntary pupil assignment or reassignment, (2) magnet schools and centers, (3) transportation of pupils, (4) racially isolated minority schools, and (5) indirect costs.

AUDIT OBJECTIVES

In accordance with the requirements of *Education Code* Sections 42247 and 42249, the objectives of this audit are to determine: (1) that the costs and programs are for the purposes of desegregation or alleviation of the harmful effects of racial segregation, as provided in the plan submitted by the school district pursuant to Section 42247.1; (2) that the costs are costs in excess of the school district's expenditure levels for regular educational programs; and (3) that the costs are neither excessive nor unreasonable.

AUDIT CRITERIA

Reference	Discussion
Claiming Instructions	Specifies claiming process and specific appropriations for districts and collaborations of districts. Contains claiming instructions, forms, copies of legislation, and general program information.
Education Code Section 42247	Specifies reimbursement provisions, allowable costs, the annual audit of claims, and specific program exclusions.
Education Code Section 42249	Implementing legislation for Voluntary Integration Program. Describes who may file claims for reimbursement and the claim process.
Budget Act	Provides appropriation for the payment of each fiscal year's claim and specific reimbursement provisions. The Final Budget Summary also contains restrictions on expenditures.

SPECIAL REQUIREMENTS

In concert with the auditor's objective of determining the appropriateness of claimed costs, the auditor is reminded of the concept of increased costs or costs in excess of regular education operations. This will require the determination of regular education school staffing levels. If the district has claimed costs for teachers, counselors, clerks, etc., the regular education ratio for each classification must be determined. Only costs in excess of the district's regular education allocation are reimbursable under this program. Supplanting of effort is not allowable.

The auditor is also reminded that school district functions are reimbursed through the revenue limit and through additional state and federal programs. Only functions not reimbursed from other sources are eligible under this program.

The auditor must determine that costs reimbursed under this program are not also claimed under the Court Ordered Desegregation Program, Education Code Sections 42243.6 and 42247.

AU	DIT PROCEDURES	Auditor's Initials	Date Completed	W/P Reference
A.	Preliminary Work			
	Objective:			
	This section of the audit program provides the auditor with a review and understanding of the program under audit, the auditee, and particular areas of special interest.			
	Procedures:			
	1. Review appropriate documentation as identified in the Audit Criteria section of this program, as necessary.			
	2. Review the permanent file, prior audit reports, and other available data pertinent to this assignment.			
	3. Contact the State Controller's Office, Division of Accounting and Reporting, to determine if any questionable areas have been identified pertaining to these claims for reimbursement.			
	4. Prepare the entrance letter, the assignment sheet, and arrange for and conduct the entrance conference with the auditee.			
	5. Determine if the district has filed for reimbursement under the Court-Ordered Desegregation Program (<i>Education Code</i> Sections 42243.6 and 42247). If so, determine if these claims should be or have been audited to prevent duplicate reimbursements.			
	6. Include a certification form documenting the independence of each auditor assigned to the audit.			
B.	Audit Survey			
	Objective:			
	This section of the audit program provides the auditor with the information necessary to plan the duration of the audit.			
	Procedures:			
	1. Obtain copies of the most recent claims for reimbursement. If possible, utilize the claims as lead schedules utilizing appropriate references to substantive working papers.			

AU	DIT PROCEDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
B.	Audit Survey (continued)			
	2. Inquire as to the claiming procedures utilized to prepare claims for reimbursement. Ascertain the strengths and weaknesses that may impact the extent of testing required during the substantive phase of the audit.			
	3. Determine if the district has had a single audit performed by either a CPA or a government agency. If a single audit was performed, determine if any work from the audit can be relied upon when performing this audit.			
	4. If additional audits were performed, obtain and review copies of the CPA audit reports for the years being audited and also obtain the most recent management letters received from the agency's CPA. Ascertain whether or not any weaknesses noted impact the extent of testing required during the substantive phase of this audit.			
	5. Prepare a bridging document.			
C.	Audit Plan			
	Objective:			
	This section of the audit program completes the audit plan for the duration of the audit.			
	Procedures:			
	1. Prepare the Audit Planning Memorandum, noting background information, significant problem areas, the scope of substantive testing contemplated, the assignment budget, target dates, and obtain supervisory approval.			
	2. Update the assignment sheet with the audit hours assigned.			
	NOTE: During the course of the audit, if problems arise that require additional time for any phase of the audit, obtain supervisory approval prior to expanding the extent of testing contemplated in the original budget.			

AUDIT PROCEDURES (continued)			EDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
D.	Substantive Audit Procedures					
	Objective:					
	This section of the audit program provides general guidance regarding the substantive testing of cost categories claimed for reimbursement and documents exceptions taken by the auditor. Document sampling methodology for each test in which sampling procedures are used.					
	Procedures:					
	1. Voluntary Pupil Assignment and Reassignment System					
	The purpose of this section is to determine that costs claimed are increased costs, are related to the implementation of the integration program plan, and qualify for reimbursement in accordance with the <i>Education Code</i> .					
	a. Determine that assignment or reassignment costs claimed meet the following criteria:					
		1)	Must be voluntary;			
		2)	Must enhance racial/ethnic balance;			
		3)	Must be other than home-to-school; and			
		4)	Must be increased costs.			
	b. Determine that supplemental instruction costs claimed meet the following criteria:					
		1)	Must be voluntary;			
		2)	Must enhance racial/ethnic balance; and			
		3)	Must be increased costs (not supplant basic educational functions or categorical aid programs).			
	c. Test supporting documentation for the following costs:					
		1) 2)	Salary and employee benefits claimed; and Other costs claimed (supplies, textbooks, etc.).			

AUDIT I	PROCEDURES (continued)	Auditor's Initials	Date Completed	W/P Reference
D. Subs	stantive Audit Procedures (continued)			
2. <u>1</u>	Magnet Schools or Centers			
i	The purpose of this section is to determine that costs claimed are increased costs, related to the implementation of the integration program plan, and qualify for reimbursement in accordance with the <i>Education Code</i> .			
8	a. Test salary and employee benefits against supporting documents.			
ł	b. Determine that certificated and classified employees claimed are in excess of district regular education allocation.			
C	c. Determine that positions claimed are not funded by categorical aid or other reimbursement programs.			
(d. Test other costs claimed (supplies, textbooks, computers, etc.) against source documents (approvals, invoices, warrants).			
6	e. Perform a physical inspection of equipment if considered necessary to determine that materials are being used on the integration program.			
	Transportation of Pupils to Alternative Schools or Programs			
i	This section provides a determination that costs claimed are increased costs related to the implementation of the integration program plan and qualify for reimbursement.			
8	a. Verify that costs claimed are for other than home-to-school transportation.			
ł	b. Obtain a copy of the district's Form J-141 filed with the California Department of Education.			
C	c. Determine that reimbursement received for integration transportation included in the J-141 claim is offset against the costs reported under this program.			

W/P Auditor's Date **Initials** Completed AUDIT PROCEDURES (continued) Reference D. <u>Substantive Audit Procedures</u> (continued) 4. Racially Isolated Minority Schools This section provides a determination that costs are increased costs for eligible racially isolated minority schools. a. Verify that the schools claimed are racially isolated minority schools as defined and adopted by the local governing board. b. Trace the costs claimed (salaries, benefits, supplies, computers, etc.) to source documents (approvals, invoices, and warrants, etc.). c. Determine that the costs claimed are increased costs over and above regular education operating expenditure levels. d. Determine that categorical aid or other reimbursement programs do not fund the costs claimed. e. Perform a physical inspection of equipment if considered necessary to determine that materials are being used on the integration program. 5. Indirect Costs The purpose of this section is to determine that the proper rate was applied to eligible expenditures. Determine that the district used the J-380/580 nonrestrictive indirect cost rate approved by the California Department of Education. 6. Review district's general education programs to determine if costs have increased or decreased in relation to enrollment. If general education costs

7. Reimbursement Limit Calculation

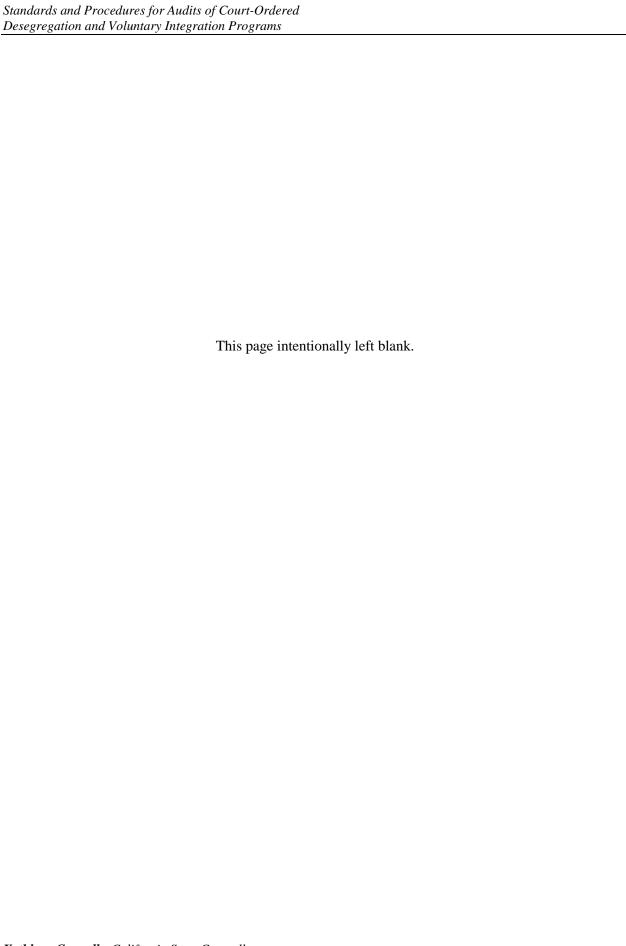
only increased costs.

a. Review the percentage increase in annual average daily attendance (ADA) and statutory cost-of-living adjustment (COLA). If ADA percentage is negative, use zero for the calculation.

have declined, determine if general education costs are being supplanted with integration funds. Allow

A LIDIT PROCEDURES (and made)	Auditor's	Date	W/P
AUDIT PROCEDURES (continued)	Initials	Completed	Reference
D. <u>Substantive Audit Procedures</u> (continued)			
7. Reimbursement Limit Calculation (continued)			
 b. Confirm prior-year adjusted base year with the prior auditor or State Controller's Office, Accounting and Reporting Division. 			
 Perform reimbursement limit calculation to determine the proper reimbursement of eligible expenditures. 			
8. Conclusion of Fieldwork			
a. Conduct an exit conference.			
E. Reporting Requirements			
1. Prepare audit point sheets.			
2. Prepare draft audit report, using the current format, incorporating the necessary schedules, and referencing them into the applicable audit workpapers.			
3. Prepare final audit report, incorporating any changes based on the draft report.			

Appendix C — Agency Addresses and Contacts



AGENCY ADDRESSES

State Controller's Office, Division of Accounting and Reporting

Mailing Address Freight Deliveries Only

State Controller's Office State Controller's Office

Division of Accounting and Reporting Division of Accounting and Reporting

Local Reimbursement Unit Local Reimbursement Unit or Post Office Box 942850 3301 C Street, Suite 500 Sacramento, CA 94250-5875 Sacramento, CA 95816

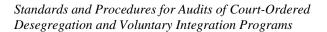
State Controller's Office, **Division of Audits**

Mailing Address Freight Deliveries Only

State Controller's Office State Controller's Office

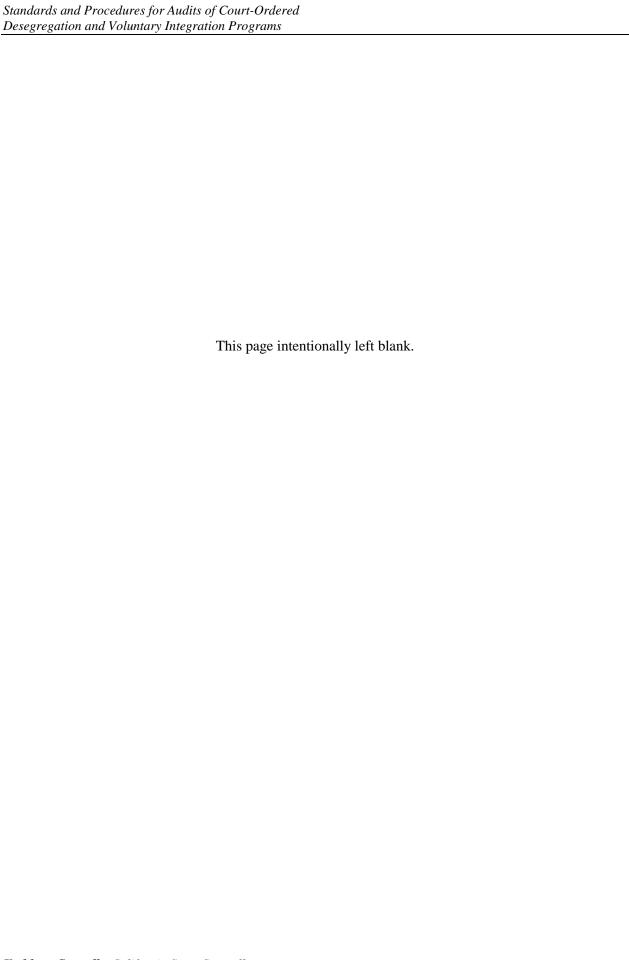
Division of Audits Division of Audits

Post Office Box 942850 300 Capitol Mall, Suite 518 or Sacramento, CA 94250-5874 Sacramento, CA 95814



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Appendix D — Publication Bibliography



PUBLICATION BIBLIOGRAPHY

State Controller's Office Division of Audits School District Audits Post Office Box 942850

Sacramento, California 94250-5874

Telephone: (916) 445-7886 http://www.sco.ca.gov

Bancroft-Whitney Company Post Office Box 7005

San Francisco, California 94120-7005

Telephone: (415) 929-3500

Barclays Law Publishers Post Office Box 3066

South San Francisco, California 94083

Telephone: (415) 244-6611

American Institute of Certified Public Accountants 1211 Avenue of the Americas

New York, New York 10036-8775

U.S. Government Printing Office Superintendent of Documents Washington, D.C. 20402-9325 Telephone: (202) 512-1800

Government Finance Officers Association 180 North Michigan Avenue, Suite 800 Chicago, Illinois 60601-7476 Telephone: (312) 977-9700

Office of Management and Budget (OMB)

Publications

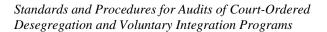
Telephone: (202) 395-7332

http://www.whitehouse.gov/WH/EOP/OMB/Grants/133

compliance

Standards and Procedures for Audits of Court-Ordered Desegregation and Voluntary Integration Programs

- Deering's California Codes Education Code Sections 42243.6, 42246, 42247, and 42249
- California Code of Regulations, Title 5
- Audits of State and Local Governmental Units
- Government Auditing Standards, Stock #020-000-00-265-4
- Governmental Accounting, Auditing and Financial Reporting
- OMB Circular A-133



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